Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

March 1991 ISSUED IN THREE SECTIONS

SPECS 27th ANNUAL CONFERENCE

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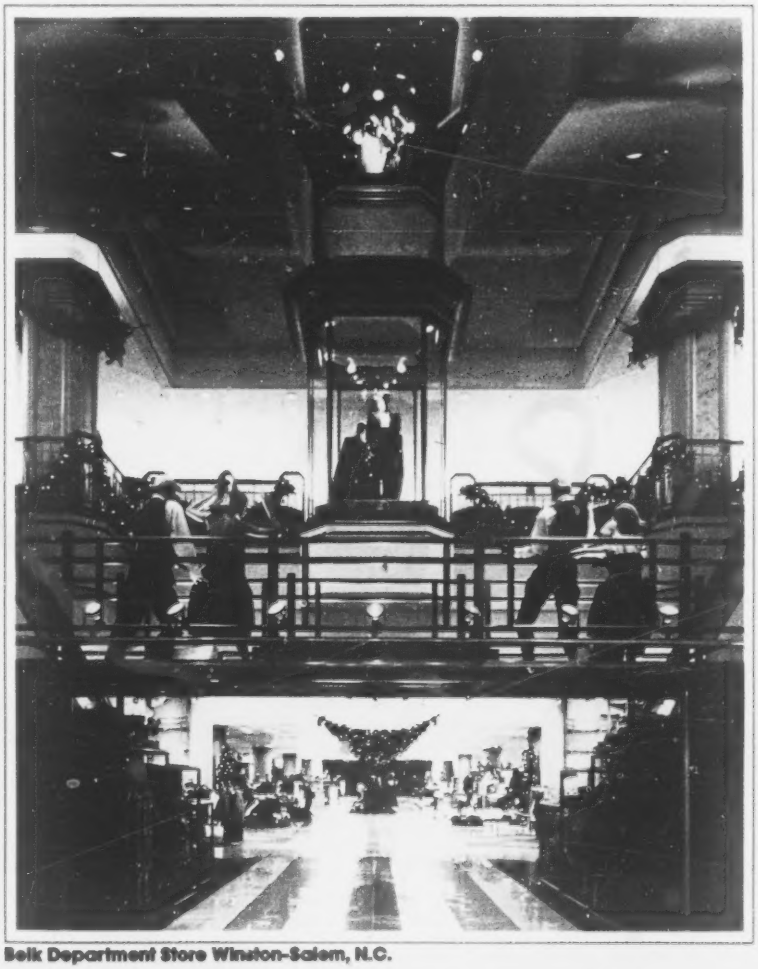

Belk Department Store Winston-Salem, N.C.

New Stores of the Year:

$79.00 A YEAR (USA) SECOND CLASS

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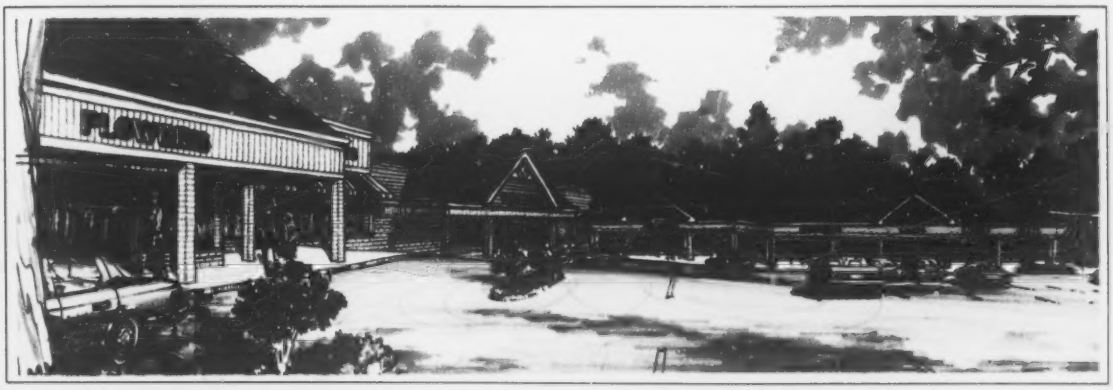

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RETAILERS TAKE EARLY BEATING IN GULF WAR

YEAR-LONG WEAKNESSES WORSEN AS FIGHTING BEGINS

It's difficult to say who took more of a beating in the first weeks of the Gulf war: The Iraqi army or American retailers.

After a year of disappointing sales, retailers were hit hard during the first month of 1991, with 12 of the nation's largest chains reporting declines or minimal gains in same-store sales.

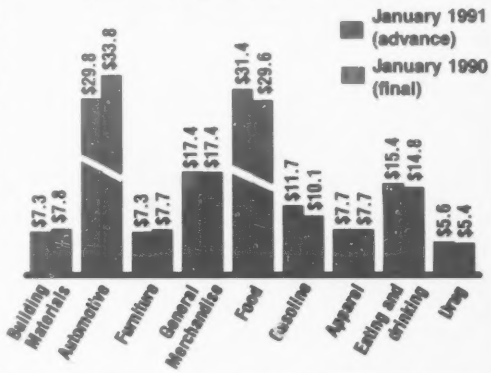
Even The Limited, which did well last year, posted a 4% same-store sales decline in January. Other specialty retailers, including Melville, Neiman Marcus, Ross and Charming Shoppes also reported slow same-store sales.

Discounters were the only bright spot in the otherwise gloomy picture, but even their results varied sharply. Wal-Mart showed its usual strong growth, and Kmart and Venture each had relatively good months. But same-store sales fell 4% at Jamesway, and increased only 0.3% at Rose's Stores.

Some analysts believe that a value orientation, together with attractive merchandise and a pleasing store environment, may have been what played to the advantage of the most successful retailers.

JANUARY SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	January '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Sears	$2,571,998	– 3.4	– 3.2	$33,946,433	+ 1.5	+ 0.6
K mart	2,418,138	+ 8.9	+ 3.8	32,068,226	+ 9.8	+ 1.9
Wal-Mart	2,495,000	+36.0	+11.0	32,600,000	+26.0	+10.0
Penney	982,000	– 1.4	– 3.0	15,268,000	+ 1.0	– 0.3
Dayton Hudson	988,000	+11.8	+ 1.2	14,500,000	+13.5	+ 3.5
May	613,500	+ 8.0	– 2.1	10,040,000	+ 7.5	+ 0.9
Melville[1]	657,495	+23.8	+ 0.3	657,495	+23.8	+ 0.3
Walgreen[1]	533,600	+ 7.9	+ 4.5	533,600	+ 7.9	+ 4.5
Woolworth	381,000	+ 6.1	+ 0.5	5,495,000	+ 7.1	+ 3.2
The Limited	410,900	+15.0	– 4.0	5,254,000	+14.0	+ 3.0
Carter Hawley Hale	161,300	– 1.6	– 3.7	2,348,300	– 1.2	– 2.2
Mercantile	148,652	+ 2.7	+ 0.3	2,365,789	+ 2.1	+ 0.4
Circuit City[2]	177,500	+ 6.0	+ 9.0	2,234,900	+14.2	N/R
The Gap	140,000	+20.0	+ 6.0	1,934,000	+23.0	+14.0
Rose's	67,381	–13.4	+ 0.3	1,525,349	+ 1.2	+ 1.0
Neiman-Marcus Group[3]	132,900	+ 4.7	– 0.5	965,800	+ 5.3	– 0.6
Venture Stores	78,200	+10.4	+ 6.2	1,420,700	+ 6.1	+ 2.2
Edison Bros.[1]	72,000	+15.6	N/R	1,250,000	+16.2	N/R
Charming Shoppes	58,100	+ 9.0	+ 1.0	886,100	+ 1.0	+ 4.0
Jamesway	33,401	+ 2.0	– 4.0	896,551	+ 6.0	N/C
Ross	53,000	+15.0	N/C	804,000	+10.0	– 3.0
Dollar General	42,100	– 4.7	– 7.7	648,500	+ 6.3	+ 1.7
Best Buy[4]	45,000	+ 7.0	– 6.0	620,000	+23.0	N/R
Gottschalks	19,027	+26.1	+11.8	287,450	+23.2	+12.0
Claire's	13,472	+11.0	– 6.0	254,874	+35.0	+ 7.0

[1]fiscal year ends Dec. 31 [2]fiscal year ends Feb. 28 [3]fiscal year ends July 31 [4]fiscal year ends Mar. 31

N/R = not reported N/C = no change

Source: Company reports

Chain Store Age Executive (USPS 054-410; ISSN 0193-1199), is published monthly by Lebhar-Friedman Inc., 425 Park Ave., New York, NY 10022, on a controlled basis to qualified retailers, real estate and shopping center developers and operators, architects and design firms, and at $79 a year; outside U.S.A.: Canada $79 (U.S. $) a year; elsewhere $125 a year, air-mail only. Single copy price: $5. Second class postage paid at New York, NY, and additional mailing offices. Vol. 67, No. 3 Copyright © 1991 by Lebhar-Friedman Inc. All rights reserved.
POSTMASTER: Please send address changes to Chain Store Age Executive, Subscription Department, Grand Central Station, P.O. Box 3113, New York, N.Y. 10164-0659.

***An attractive, well-maintained** floor sends out positive signals to shoppers.*

FLOOR CLEANLINESS RANKS HIGH WITH SHOPPERS

It's a proven fact—store appearance can have a direct impact on business. Clean, well-kept stores attract shoppers and help ensure repeat sales. For two years in a row, cleanliness has outranked pricing as ***the*** most important store characteristic in a national survey.

"Cleanliness is very important to shoppers," says Ken Zeinemann, manager of maintenance and services for Schultz Sav-O Stores, a Sheboygan, Wis.-based supermarket retailer. "Improved store appearance can help boost business."

While many items contribute to a clean store, one of the most important is the appearance and condition of the floor.

"We know clean floors are very important to our customers because they keep reminding us of the fact in focus groups," says Don Churchill, director of corporate purchasing, Walgreen Co. Operating 1600 units nationwide, the Deerfield, Ill.-based company ranks as the nation's largest drug store chain. "That's all the proof we need to make floor care a top priority."

Store designers say that flooring ranks second only to the actual products on display when it comes to making an impact on shoppers.

> Flooring is often the most impactful element of the store.

"Floor appearance is extremely important in light of the way people shop a store, which is usually at eye level and below," says Tom Henken, project executive, HTI/SDI, a Cincinatti-based design firm.

The designer says that flooring is often the most impactful element of the store.

"It is to the retailer's advantage that it be well-maintained," he adds.

High appearance levels: Retail operators say that a high-gloss floor sends out positive signals to customers.

"Shoppers associate a clean floor with a clean store," says Earl Amis, design manager, Safeway Stores, Seattle division. "High appearance levels, which for us translates into a high gloss, rank high on our list of priorities."

A new survey of supermarket shoppers conducted in spring 1990 by CDI, a New York City-based design and consulting firm, documents the importance of clean floors. The results of the study indicate that when consumers judge the cleanliness of a supermarket, the first thing they do is cast their eyes downward.

"According to the survey findings, the appearance of the floor is the single most important factor to consumers in determining overall store cleanliness," says Gerald Lewis, chairman, CDI.

Research studies have long shown that cleanliness is a primary reason consumers choose one supermarket over another, adds Lewis.

"But the findings of our survey indicate just how consumers determine if a supermarket is clean," he explains. "Even we were slight-

***The floors in perishable** departments merit special attention.*

ly surprised by how strong a showing clean floors made."

As part of the survey, shoppers were asked to respond to the open-ended question, "What's the first thing you look at when judging the cleanliness of a supermarket?" The appearance and condition of the floors were cited by 42% of the shoppers polled by the firm. Rounding out the top five responses were smell, cited by 14% of those polled, and the conditions of shelves, aisles and produce departments, each of which were named by 8% of the consumers.

High appearance levels for floors ranked even higher in the survey's aided recall section. Shoppers were given a list of 15 concerns related to supermarket cleanliness (ranging from neat shelves and attractive signs to a well-maintained exterior) and asked to select the five most important. A full 78% of those polled checked "appearance and condition of floors" as one of their five top priorities.

Other concerns: "Neat shelves, clear aisles and no clutter" was the second most frequently cited consideration. The condition of produce and the cleanliness of cans and packages also ranked high with shoppers. Appearance of employees was another priority.

While the survey is supermarket specific, the implications of the findings can be applied to nearly all retail settings.

"Clean floors should be a priority in all retail stores," Lewis noted.

Woodward & Lothrop's M.L. Nealis says design, maintenance and appearance are among his top considerations in selecting flooring. The Washington, D.C.-based department store company uses a variety of materials, including marble, vinyl tile, wood and car-

DESIGN CAN ENHANCE FLOOR APPEARANCE

Store designers say it is crucial not only to ***keep*** floors well-maintained but to design floors in such a way that they look clean when they are clean.

"Even a clean floor can look dirty if it is the wrong color, the wrong material or poorly lit," says Gerald Lewis, chairman, CDI, a New York City-based design and consulting firm. "Design is a key factor in projecting a clean and attractive appearance."

Other factors by which consumers determine cleanliness also are influenced by design, Lewis says.

"Layouts which open up rather than close down space, for example, can go a long way in combatting shoppers' concerns about clutter," he notes.

Store designers agree that the color of the flooring can play a key role in projecting an attractive, high-gloss appearance.

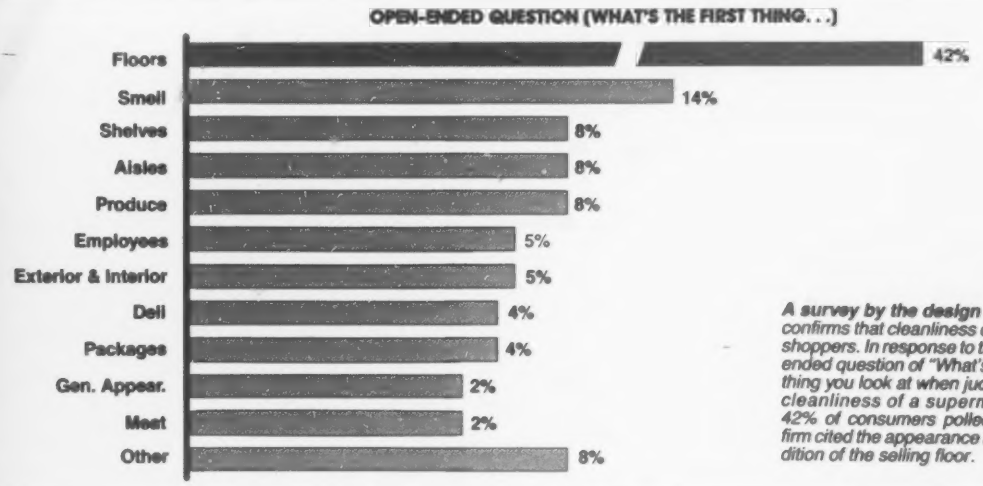
"If you select the wrong color, you automatically set yourself up for more work and expense because your maintenance people will have to work twice as hard to keep the floors looking good," says Bob Abbott, senior designer for Fred Meyer. The combination store chain is based in Portland, Ore.

When selecting flooring, Abbott looks for a material that is durable, attractive, and holds up well with regular maintenance. Flooring in the chain's most recent stores is composed of vinyl composition tile in a bold black and white checkerboard pattern. The tile is flecked with small chips.

"A solid color is tough to keep up," he says. "It shows dirt very quickly. For that reason, I always use flecked or patterned tile."

Vinyl composition tile is also the flooring of choice for William Triplett, project manager for H.E.

STORE MAINTENANCE/FLOOR APPEARANCE



A survey by the design firm CDI confirms that cleanliness counts to shoppers. In response to the open-ended question of "What's the first thing you look at when judging the cleanliness of a supermarket," 42% of consumers polled by the firm cited the appearance and condition of the selling floor.

peting, throughout its stores.

"Clean floors play an enormous role in the overall appearance of department stores," says Nealis, who serves as vp of construction and maintenance for Woodward & Lothrop.

According to Nealis, floors have a direct impact on business in that they are used to delineate different departments and to lead customers through the store.

"A floor has to be clean and attractive in order for it to entice shoppers to explore the store," Nealis adds.

Maintenance is a job which requires daily attention, says Nealis. If you let it go, there's no catching up, he warns.

For many maintenance managers and retailers, the three worst months of the year for floor upkeep are December, January and February.

"You have to stay on top of floor upkeep constantly during the winter because the snow and the sleet make it very hard to keep the floors clean," says Schultz Sav-O's Zeinemann.

Regular maintenance can help minimize slip/fall, which is responsible for more than 52% of public liability claims in supermarkets, according to a new survey by the Food Marketing Institute (FMI). The survey, which contains accident and loss date for the 1985-1989 period, notes that a number of companies report that the largest number of slip/falls occurs at the front end of the store. Extra care should be taken to see that these areas are clean and trouble-free.

"Floors that are well-maintained not only project a neat and attractive image, but they also help reduce the chance of slip/fall," says the maintenance super-

Butt Grocery, a San Antonio-based supermarket chain.

"We want our floors to look as good as possible," he says. "Given the heavy traffic and the heavy abuse our floors get, vinyl composition tile just makes the most sense. And the high gloss finish of composition tile is easy to maintain."

Soft flooring: Some designers recommend the use of soft modular carpet tiles.

"Modular carpet tile is more expensive at the outset and can be harder to clean than the traditional vinyl composition," says Tom Henken, project executive, HTI/SDI, a Cincinatti-based design firm. "But it is much more effective than the temporary carpet mats that many people still throw around the produce areas. And soft carpeting can help minimize slip/fall."

H.E. Butt is experimenting in the perishable departments of its newest stores with a textured concrete floor that features a simulated wood finish.

"It almost completely eliminates the possibility of slip/fall and it looks great, but there are still some maintenance problems to work out," Triplett says. "These departments deserve special attention in that they have different requirements than the rest of the store."

The backrooms of supermarkets create their own maintenance problems. Here again, designers say, careful consideration of flooring specifications can ease later upkeep problems.

"I used a ceramic paver in the backroom in a recent project for Kash 'N Karry," says SDI's Tom Henken. "It is very durable and holds up well under constant washdowns."

visor for a small New England supermarket chain. "We hold various promotions for our maintenance employees during the winter months to ensure that appearance levels remains high."

Training: Maintenance experts agree that training is one of the keys to attractive and well-maintained floors.

"Retail operators need to pay more attention to what is being done to the floors," says Peter Marotta, president, New York City-based Supermarket Technical Services. "Whether you use outside contractors or your own employees, more of a priority has to be given to training. Any type of floor maintenance depends on the people who are actually performing the job."

Marotta also advises that more careful consideration be given to material selection. Match the floor material to the activity that will be performed in each area.

"By selecting the right flooring materials at the outset, you can help keep your stores looking fresh and attractive over the long haul," he adds.

Marotta says that too many people let themselves be won over by a too-complicated or trendy design or an unsuitable color or material.

"Select a floor that is easy to maintain, durable and looks good," he adds. "You will be doing yourself a big favor in the end."

Mark Saday, maintenance manager of Larry's Markets, an upscale supermarket company based in Seattle, says that employee performance is key to that chain's high floor appearance levels. Larry's top management have made it clear that floor care is a top priority, he says, and that attitude filters down through the chain.

"If management makes it known that they regard floor maintenance as important, the employees responsible for the job are apt to be more motivated and do a better job than they otherwise would," Saday says. "We put a high premium on our maintenance employees' performance and it shows in the consistently high appearance of our floors. Our employees work hard because they know how important clean, attractive floors are to our overall operation." ■

QUALITY PRODUCTS CAN HELP CUT LABOR COSTS

Floor care experts and maintenance managers agree that the most effective way to reduce floor maintenance costs is to increase labor productivity. According to the International Sanitary Supply Association, approximately 90 cents out of every one dollar spent on floor maintenance goes to labor. The remaining monies are split between chemicals, supplies, etc.

> A customized floor care system can also cut labor hours.

"Labor costs for maintenance run very high, especially in a high-turnover business like ours," says the maintenance manager for a small New England-based supermarket chain.

For store operators, the challenge of increasing employee productivity is a formidable one. Although there are a lot of talented floor maintenance workers to be found, they require extensive initial training.

Labor becomes even more costly when workers are not properly trained or do not have access to the right support tools. Plus, the best workers are often difficult to keep in-house.

One of the most effective ways to reduce labor costs is through the use of quality cleaning chemicals ***specifically*** designed for the retail environment. Products that are durable and ensure a high appearance require less maintenance on a day-to-day basis. In addition to a quality product, reliable maintenance suppliers should provide technical and training support for managers and maintenance employees.

Hours cut: The maintenance supervisor for a mid-western supermarket chain reports that since switching to a higher-quality product system, individual stores' maintenance requirements have been reduced.

"It was hard to maintain a high-gloss on a daily basis with the previous products," he explains. "Now, our floors look great but they require less care and less stripping than before. We have reduced floor maintenance time by as much as 30% in some stores. Plus, our maintenance employees now have more time for other duties."

A customized floor care system that meets the needs of a specific retailer can also cut labor hours.

A reputable supplier of a quality product should work with store management to develop a maintenance cost-management program to reduce costs, boost productivity and enhance appearance levels.

The program should outline recommended daily, weekly and monthly maintenance procedures and required labor hours. It should also detail necessary product usage and total maintenance costs per store. The supplier should track the program's progress.

Drug Emporium has lowered its maintenance costs and standardized the quality of the chemicals used throughout its floors through a customized floor-cleaning program from Racine, Wis.-based SC Johnson Wax. In place for more than a year, the program ensures that stores use reputable products.

"The program is working out great," says Jim Cline, director of store planning, Drug Emporium, which is based in Worthington,

Why Aren't More Retailers Implementing Quick Response—Or Are They?

SPECIAL REPORT QR

It's nearly two years since Andersen Consulting was commissioned by the Voluntary Interindustry Communications Standards (VICS) Committee to conduct the landmark study on the opportunities that Quick Response could afford the retail industry.

Given the magnitude of the potential benefits uncovered by the research—such as $9.6 billion in annual, industry-wide savings, which equates to roughly 4.9% of sales—we expected that retailers would want to implement QR *yesterday*.

Although there has been significant progress over the last 24 months, the level of implementation has fallen far short of our expectations. (See Exhibit H) Why? To answer that question, you must remember that there are really two components of Quick Response—the business strategies and the technologies—and if we look at them separately, two very different pictures emerge.

QR business strategies: The "business" of Quick Response starts when a retailer sits across the table from a vendor and starts talking about how to do business differently, not just by putting in technology but by developing a WIN-WIN partnership. The two CEOs have to agree on past problems, future changes, and new goals for everything ranging from inventory turns to shipping performance.

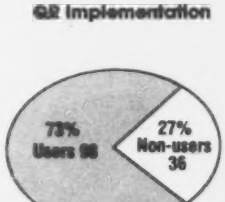
Then, the "business" of Quick Response moves inside the retailer's organization with the definition of new structures, roles and responsibilities. The company-wide communication of new objectives for inventory turns, profitability, sales goals, and other QR performance criteria has to be enforced with education, training and new reward systems.

Not surprisingly, it's in the "business" side of Quick Response that retailers are falling short. Very few companies, other than the industry leaders, can demonstrate true QR partnerships. One reason might be a simple lack of understanding of what Quick Response really is. In this case, a company puts in EDI and calls it Quick Response.

But the biggest reason that retailers have been slow to implement the "business" of Quick Response is that

EXHIBIT E

In a survey of 134 retailers conducted by Andersen Consulting and a major university, 73% said they are in the process of implementing QR in their operations. These 73% cover the total retail spectrum—companies large and small, from department to specialty stores. The common thread among leaders in Quick Response is not size, but the vision of management.



'Commitment must be company-wide, since all phases of operations are affected. It's up to senior management to provide the necessary motivation. QR is a business strategy and must be managed as such.'

—Elizabeth Roney, senior director of information systems, Kmart Apparel Corp.

such cultural change can be difficult or, at the very least, intimidating. The resistance to change is best overcome by a systematic, step-by-step implementation plan, much like those used to implement technology. By planning how to change, retailers better position the whole company for a smooth transition.

QR technology: When one looks at progress in implementing QR technologies, one sees a far different picture. A recent study conducted by Andersen Consulting and Florida State University of more than 130 different retailers concluded that approximately 75% have either completed the implementation of major QR technologies or are in the process of doing so.

The reasons behind this progress are not hard to guess. Technology is a known commodity—people can get their hands around it, can understand it readily. And, since QR *does* require enabling technologies, putting these in place seems the easiest place to start. While new technology does disrupt the organization, its impact is limited compared to a strategic shift in business practices. Finally, in many companies, Quick Response has been treated as an MIS project rather than a CEO and company-wide initiative.

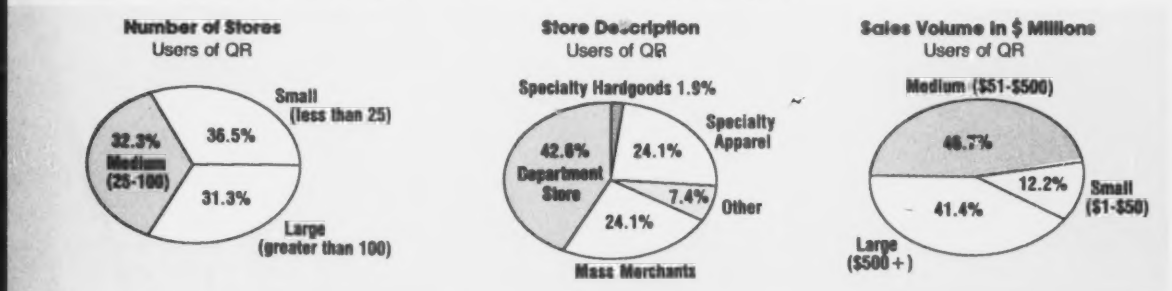
While QR technologies provide operational efficiencies, they do not constitute true Quick Response. For example, EDI alone eliminates a lot of clerical labor, but it cannot significantly shorten the industry pipeline. In another example, if employees use POS scanning only to get customers through checkout as quickly as possible, they're likely to ring up five pairs of socks by scanning only one pair five times. By doing so, they fail to capture the color information so important to automatic replenishment and better customer service in the end.

Leverage the technology advantage: Given that QR technologies are in place in many operations, how can retailers take the next step—the more important step—of making the business changes required by Quick Response?

First, they have to overcome points of resistance—and, for most companies, this means converting the buyers. Perhaps the answer here is a new function of inventory management that frees the buyers to do what they do best, namely, determining what is going to sell in the coming months. The inventory managers would be part of the larger buying organization and would work closely with merchants to assure that each store is carrying the right quantity of merchandise.

Second, retailers have to establish new performance standards. If the industry standard for inventory turns is 2.5, then shoot for five. If the industry standard is to beat last year by 6%, then strive for 12%. Quick Response companies are realizing these new, QR "standards" and their performance will, in the long run, drive market share and profitability for everyone in the industry.

Clearly, there has been a significant amount of progress—in the technology side of Quick Response. Now the challenge is to leverage that progress into true competitive advantage—Quick Response *businesses*.



The Win-Win Partnership

What steps must retailers and vendors take to establish mutually beneficial partnerships?

- **Commit to understanding each others objectives and limitations.**
- **Establish more effective, well defined lines of communication.**
- **Adopt new business strategies and practices.**
- **Define mutually agreeable performance measures.**
- **Develop corporate-wide education programs.**
- **Implement and enforce the use of VICS standards for item identification, electronic data interchange and shipping container marking.**
- **Learn to negotiate fairly toward win-win solutions to questions regarding sharing of information and sharing of costs.**

In addition, in the long term, vendors must become more responsive to changing customer demands through implementation of short-cycle manufacturing techniques. To facilitate this retailers must agree to capture and share with them detailed sales information.